# TARIFF RATE DEVELOPMENT

Traffic Sensitive Special (TSSP) Access
***95/96 Test Period (TP)*** - April '95 Annual Filing

**Revenue Requirement to be recovered in filing:**

**[*Standard Cost Company* RRQ (95/96 TP)]**

+

**[*Standard Average Schedule RRQ* (95/96 TP)]**

+

**[*Customer Dividend RRQ*: Σ(95/96 Revenue @ Current 7/94 Rates[10] X DXI1 X (1-.0065))]**

+

**Small Company Incentives:**

**[*Cost Company:* Σ (95/96 Revenue @ Current 7/94 Rates X CXI1)]**

+

**[*Average Schedule:* Σ (95/96 Revenue @ Current 7/94 Rates X AXI1)]**

+

**[*NECA* Administrative Expenses]**

Where "Σ" is the Sum of the Products for all Study Areas.

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[10] This example assumes no midcourse correction filings have taken place. If there are midcourse filings, revenue should be adjusted for current rates.

# TARIFF RATE DEVELOPMENT

Traffic Sensitive Special (TSSP) Access
*96/97 Test Period (TP)* - April '96 Annual Filing

**Revenue Requirement to be recovered in filing:**

**[*Standard Cost Company* RRQ (96/97 TP)]**

**+**

**[*Standard Average Schedule RRQ* (96/97 TP)]**

**+**

**[*Customer Dividend RRQ*: Σ(96/97 Revenue @ Current 7/95 Rates X DXI2 X $(1-.0065)^2 \div$ 7/95 RAF)**

**+**

**Σ((DXA2 - DXI1)X (1-.0065) ÷ (7/95 RAF) X (7/95 → 6/96 Revenue)]**

**+**

**Small Company Incentives:**

**[*Cost Company:* Σ (96/97 Revenue @ Current 7/95 Rates X CXI2 ÷ 7/95 RAF )**

**+**

**Σ((CXA2 - CXI1) ÷ (7/95 RAF) X (7/95 → 6/96 Revenue)]**

**+**

**[*Average Schedule:* Σ (96/97 Revenue @ Current 7/95 Rates X AXI2 ÷ 7/95 RAF)**

**+**

**Σ((AXA2 - AXI1) ÷ (7/95 RAF) X (7/95 → 6/96 Revenue)]**

**+**

**[*NECA* Administrative Expenses]**

Where "Σ" is the Sum of the Products for all Study Areas.

# TARIFF RATE DEVELOPMENT

Traffic Sensitive Special (TSSP) Access

*97/98 Test Period (TP)* - April '97 Annual Filing

**Revenue Requirement to be recovered in filing:**

***Standard Cost Company RRQ* (97/98 TP)]**

+

**[*Standard Average Schedule RRQ* (96/97 TP)]**

+

**[*Customer Dividend RRQ*: Σ(97/98 Revenue @ Current 7/96 Rates X DXA1)X (1-.0065)]**

+

**(Σ(DXI3 - DXI2) X (1-.0065) X((7/95 → 6/96 Revenue) ÷ (7/95 RAF))**

+

**(Σ(DXI3 - DXI2) X $(1-.0065)^2$ X (7/96 → 6/97 Revenue) ÷ (7/95 RAF) ÷ (7/96 RAF))**

+

**Small Company Incentives:**

**[*Cost Company:* Σ (97/98 Revenue @ Current 7/96 Rates X CXA1)]**

+

**(Σ(CXI3 - CXI2) X ((7/95 → 6/96 Revenue) ÷ (7/95 RAF))**

+

**(Σ(CXI3 - CXI2) X (7/96 → 6/97 Revenue) ÷ (7/95 RAF) ÷ (7/96 RAF))**

+

**[*Average Schedule:* (97/98 Revenue @ Current 7/96 Rates X AXA1)]**

+

**(Σ(AXI3 - AXI2) X ((7/95 → 6/96 Revenue) ÷ (7/95 RAF))**

+

**(Σ(AXI3 - AXI2) X (7/96 → 6/97 Revenue) ÷ (7/95 RAF) ÷ (7/96 RAF))**

+

**[*NECA* Administrative Expenses]**

Where "Σ" is the Sum of the Products for all Study Areas.

# TARIFF RATE DEVELOPMENT

Traffic Sensitive Special (TSSP) Access
***98/99 Test Period (TP)*** - April '98 Annual Filing

**Total Cost & Incentive Company Revenue Requirement to be recovered in filing, including incentive companies:**

**[*Standard Cost Company* RRQ (98/99 TP)]**

+

**[*Standard Average Schedule RRQ* (96/97 TP)]**

+

**[*Customer Dividend RRQ*: Σ(98/99 Revenue @ Current 7/97 Rates X $(1-.0065)^2$ X DXA2 ÷ 7/97 RAF)**

+

**Σ((DXA2 - DXA1) X (1-.0065) ÷ (7/97 RAF) X (7/97 → 6/98 Revenue)]**

+

**Small Company Incentives:**
**[*Cost Company:* Σ (98/99 Revenue @ Current 7/97 Rates X CXA2 ÷ 7/97 RAF )]**

+

**[*Average Schedule:* Σ (98/99 Revenue @ Current 7/97 Rates X CXA2 ÷ 7/97 RAF )]**

+

**(Σ(AXI4 - AXI3) X ((7/95 → 6/96 Revenue) ÷ (7/95 RAF))**

+

**(Σ(AXI4 - AXI3) X (7/96 → 6/97 Revenue) ÷ (7/95 RAF) ÷ (7/96 RAF))**

+

**[*NECA* Administrative Expenses]**

Where "Σ" is the Sum of the Products for all Study Areas.

# TARIFF RATE DEVELOPMENT

Common Line (CL) Access
*95/96 Test Period (TP)* - April '95 Annual Filing

**Total Pool 95/96 CCL Revenue Requirement:**

**[*Standard Cost Company* RRQ (95/96 TP)**
**- (95/96 End User & SAS)]**
**+**
**[*Standard Average Schedule* RRQ (95/96 TP)]**
**- (95/96 End User & SAS)]**
**+**
**[*Customer Dividend RRQ*: Σ (DCI1 X 95/96 CL MOU X (1-.0065))]**
**+**
**Small Company Incentives:**
**[*Cost Company:* Σ (CCICLSR X 95/96 TS MOU)]**
**+**
**[*Average Schedule Company:* Σ (ASICLSR X 95/96 TS MOU)]**
**+**
**[*NECA* Administrative Expenses]**

Where "Σ" is the Sum of the Products for all Study Areas.

Long Term Support Calculation:

**Total Pool 95/96 CCL Revenue Requirement identified above**

**less**

**[95/96 originating NACCL rate X 95/96 total pool projected originating MOU**

**+**

**95/96 terminating NACCL rate X 95/96 total pool projected terminating MOU]**

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# TARIFF RATE DEVELOPMENT

## GENERAL INFORMATION

**Rate Nomenclature Conventions**

**Settlement Rates**

| **Position:** | **1** | **2** | **3** | **4** |
|---|---|---|---|---|
| **Definition:** | Plan Type | Service Type | Filing Period | Rate Type |
| **Valid Characters:** | D, C, A | C, S, P, or X | I, A, or B | 1, 2, 3, or 4 |

**Plan Type**
There are three plan types:
**D** - Customer Dividend Plan.

**C** - Small Cost Company Incentive Plan.

**A** - Small Average Schedule Incentive Plan.

**Service Type**
There are four service types:
**C** - Common Line.

**S** - Traffic Sensitive Switched Access.

**P** - Special Access.

**X** - Special Access. "X" signifies the retention ratio is calculated directly from historical revenue and revenue requirements without any adjustment for prospective RAFs.

# TARIFF RATE DEVELOPMENT



**Filing Period**
There are three biennial filing period categories:

**I** - This is the initial two year filing for a company. Rates during the initial period are calculated differently than subsequent filings. Companies electing one of the incentive options for July 1994, or electing for the first time one of the incentive options in a future period, use the initial filing period rate or retention ratio algorithms.

**A** - This is for companies in the '97/'99, '01/'03, '05/'07, etc. biennial tariff period that are not in their initial biennial filing period.

**B** - This is for companies in the '99/'01, '03/'05, '07/'09, etc. biennial tariff period that are not in their initial biennial filing period.

**Rate Type**
There are four types:
**1** - This is the first rate (or retention ratio) calculation, based on historical cost and demand that is not final. This is the settlement rate for the first year of a biennial period (assuming no required changes).

**2** - This is the second rate (or retention ratio) calculation, based on historical cost and demand that is not final. This is the settlement rate for the second year of a biennial period (assuming no required changes). It is also used in the first year-end true-up calculation.

**3** - This is the third rate (or retention ratio) calculation. It is also the final calculation if the historical cost and demand are final. It is not used in a company's settlement rate calculation, only for the second year-end true-up calculation.

**4** - This is the fourth rate (or retention ratio) calculation. It is only needed when the third rate calculation is not final. It is used in the third year-end true-up calculation.

**Before the**
**FEDERAL COMMUNICATIONS COMMISSION**
**Washington, D.C. 20554**

| | | |
|---|---|---|
| In the Matter of | ) | |
| | ) | |
| The National Exchange Carrier Association, Inc. | ) | |
| Proposed Revision of Part 69 of the | ) | RM 8389 |
| Commission's Rules to Allow for Incentive | ) | |
| Settlement Options for NECA Pool Companies | ) | |

**REPLY**

National Exchange Carrier Association, Inc.
100 South Jefferson Road
Whippany, New Jersey 07981

July 5, 1995

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## SUMMARY

The Commission issued a Public Notice on May 19, 1995 establishing a pleading cycle regarding NECA's Supplemental Comments filed May 15, 1995 to its 1993 Petition for Rulemaking which proposed additional rule revisions to allow it to offer incentive settlement options to NECA pool members. Comments in support of NECA's proposed incentive options were filed by ICORE, Inc. (ICORE), the National Telephone Cooperative Association (NTCA), the Organization for the Protection and Advancement of Small Telephone Companies (OPASTCO), and the United States Telephone Association (USTA). These commenters urged the Commission to initiate a rulemaking proceeding in this matter. AT&T Corp. (AT&T), General Communication, Inc. (GCI) and MCI Telecommunications Corporation (MCI) filed comments questioning various aspects of NECA's plan.

In this Reply, NECA demonstrates that its plan is consistent with Commission policy of developing a continuum of incentive-based settlement plans for exchange carriers (ECs). NECA also shows that its incentive regulation lower access rates and benefits ratepayers, and that its proposed timing commitments are reasonable. NECA, along with supporting commenters, provide a reasonable explanation for why optionality is necessary. Finally, NECA shows that its proposed settlement calculations are reasonable.

NECA requests that the Commission initiate a rulemaking proceeding to propose its Customer Dividend Option and its Small Company Incentive Option, as well as to consider the pricing flexibility, streamlined procedures and pro forma rule changes which NECA proposed in its 1993 Petition for Rulemaking. Adoption of these incentive options will allow NECA's pool members and their customers to receive the benefits of incentive regulation that the Commission has adopted for companies that are no longer NECA pool members.

**Before the**
**FEDERAL COMMUNICATIONS COMMISSION**
**Washington, D.C. 20554**

| | | |
|---|---|---|
| In the Matter of | ) | |
| | ) | |
| The National Exchange Carrier Association, Inc. | ) | |
| Proposed Revision of Part 69 of the | ) | RM 8389 |
| Commission's Rules to Allow for Incentive | ) | |
| Settlement Options for NECA Pool Companies | ) | |

**REPLY**

Pursuant to the Commission's May 19, 1995 Public Notice[1] in the above-captioned proceeding, the National Exchange Carrier Association, Inc. (NECA),[2] hereby submits the following Reply. This Reply addresses comments[3] regarding NECA's Supplemental Comments[4] proposing

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[1] Public Notice, RM 8389, DA 95-1133, NECA Files Supplemental Comments to Petition for Rulemaking to Allow for Incentive Settlement Options for NECA Pool Companies (May 19, 1995).

[2] NECA is a not-for-profit corporation responsible, under Subpart G of Part 69 of the Commission's rules, for activities including the preparation of access charge tariffs on behalf of all telephone companies that do not file separate tariffs, collection and distribution of access charge revenues, and the administration of the Universal Service and Lifeline Assistance programs. See 47 C.F.R. § 69.603.

[3] Comments were submitted by: AT&T Corp. (AT&T), General Communication, Inc. (GCI), ICORE, Inc. (ICORE), MCI Telecommunications Corporation (MCI), the National Telephone Cooperative Association (NTCA), the Organization for the Protection and Advancement of Small Telephone Companies (OPASTCO), and the United States Telephone Association (USTA).

[4] The National Exchange Carrier Association, Inc. Proposed Revision of Part 69 of the Commission's Rules to Allow for Incentive Settlement Options for NECA Pool Companies, RM 8389, Supplemental Comments, filed May 15, 1995 (Supplemental Comments). In 1993, NECA filed a Petition for Rulemaking proposing revisions of Part 69 regarding incentive settlement options. See The National Exchange Carrier Association, Inc. Proposed Revision of Part 69 of the Commission's Rules to Allow for Incentive Settlement Options for NECA Pool Companies, RM 8389, Petition for

further rule revisions to allow it to offer incentive settlement options within NECA pools. In this Reply, NECA has responded thoroughly to issues raised and agrees with several commenters that support the issuance of a Notice of Proposed Rulemaking by the Commission regarding this matter.

## I. BACKGROUND

On November 5, 1993, in response to Commission encouragement,[5] NECA filed its Petition proposing rule revisions that would allow it to offer incentive settlement options to its pool members. NECA petitioned the Commission to institute a rulemaking to revise Part 69 of the Commission's rules to allow exchange carriers (ECs) to elect regulatory incentive options, similar to those options adopted by the Commission for non-NECA tariff participants,[6] while also retaining the administrative benefits of NECA pool participation.[7] In its Petition, NECA proposed the "Pool Profit Sharing Incentive Option" and the "Pool Small Company Incentive Option."[8] NECA also proposed

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Rulemaking, filed November 5, 1993 (Petition).

[5] See Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation, CC Docket No. 92-135, Report and Order, 8 FCC Rcd 4545 (1993) (Regulatory Reform Order). In that proceeding the Commission stated that:

> . . . we encourage NECA to continue to work on reforms to introduce optional incentive plans into the pooling process, which would be considered in the context of a separate proceeding, a waiver petition or a rulemaking. (Id. at 4562).

[6] See Regulatory Reform Order. See also sections 61.39 and 61.50 of the Commission's rules, 47 C.F.R. §§ 61.39 and 61.50.

[7] Petition at 1.

[8] See id. at 8-12.

streamlined new services introduction, pricing flexibility and administrative rule revisions that reflect actual operations of the NECA pools.[9]

Recently, the Commission conducted an extensive review of its EC Price Cap Plan. On April 7, 1995, the Commission released an order modifying its rules on incentive regulation.[10] The Commission stated at that time that it does not see profit sharing as a desired feature of its permanent price cap plan.[11] In response, on May 15, 1995, NECA filed Supplemental Comments to its 1993 Petition to replace its "Pool Profit Sharing Incentive Option" with a new "Customer Dividend Option."[12] The Customer Dividend Option removes the profit sharing mechanism and adds a customer dividend leading to reductions in tariff rates resulting from lower settlement rates for companies electing this option.[13] As NECA demonstrated in its Supplemental Comments, the Commission's adoption of incentive options for NECA pools will allow NECA members and their

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[9] See id. at 12-16.

[10] Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, First Report and Order, 60 Fed. Reg. 19526 (April 19, 1995), FCC 95-132 (released April 7, 1995) (Price Cap Review Order).

[11] In the Price Cap Review Order, the Commission stated that sharing and low-end adjustment mechanisms should be eliminated as part of a permanent price cap plan for ECs. Price Cap Review Order at ¶ 184.

[12] Supplemental Comments at 2.

[13] Id. at 2. The Customer Dividend Option will: 1) allow a cost company in NECA's pools to elect incentive regulation for either traffic sensitive services only or for both common line and traffic sensitive services; 2) require a minimum commitment of four years, i.e., two, two-year incentive periods; and 3) use formulas to calculate EC-specific incentive settlement rates. Id. at 4. Historical revenue requirements and demand are used to set study area specific incentive settlement rates. NECA would reset these settlement rates at the end of each two-year incentive period to the authorized rate of return. The calculations that set the settlement rates in the Customer Dividend Option, however, would include application of a customer dividend factor equal to 0.65% per year. Id.

customers to enjoy the benefits of incentive regulation that the Commission had previously adopted for companies that are no longer NECA pool participants.[14]

ICORE, NTCA, OPASTCO and USTA were supportive of NECA's proposals and urged the Commission to initiate a rulemaking proceeding.[15] ICORE "heartily endorses NECA's proposed incentive settlement options, including the Customer Dividend Option and NECA's Pool Small Company Incentive Option, as extremely beneficial to non-Price Cap LECs, IXCs, and interstate ratepayers."[16] NTCA "continues to support NECA's proposals as necessary to keep pool participation options in step with regulatory treatment options allowed outside the pooling environment."[17] ICORE further states that "NECA's incentive settlement options will reward efficiency, encourage cost control and streamline the pooling process."[18] OPASTCO holds the belief that:

> . . . the Customer Dividend Option would provide a strong incentive to many small LECs to strive for challenging productivity gains while the resetting of rates every two years to the authorized rate of return would curtail the profit potential. Most importantly, reducing the settlement rates by the customer dividend would lower access costs

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[14] Supplemental Comments at p. ii.

[15] ICORE at 1-3; NTCA at 2 and 4; OPASTCO at 2-3 and 7; USTA at 1-3.

[16] ICORE at 1. ICORE concludes its comments stating that "[s]ince interstate ratepayers will be the ultimate beneficiaries of NECA's proposal, its incentive settlement options should be adopted and implemented as soon as possible." Id. at 3.

[17] NTCA at 2.

[18] ICORE at 2. According to ICORE, NECA's incentive settlement options "will allow the very smallest LECs to avail themselves of Price Cap and Part 61.39 surrogates, initiating them to the benefits of those very positive processes." Id.

for NECA's pools, which, in turn, may lead to reductions in NECA tariff rates charged to customers.[19]

"Adoption of an incentive regulation option for telephone companies who would also like to retain the benefit of the administrative cost savings permitted through the pooling process would serve the public interest" according to USTA.[20] In agreement with the other supporting commenters, NTCA requests that "the Commission [should] move forward expeditiously to modify the necessary access plan rules to broaden the settlement options available to pooling LECs consistent with the NECA proposals."[21]

AT&T, MCI and GCI, however, raised objections to NECA's plan. AT&T, MCI and GCI questioned the reasonableness of the calculation of the initial settlement rates,[22] the customer dividend factor,[23] the lack of profit sharing,[24] the optionality of NECA's plan,[25] and the benefits which will be derived.[26] AT&T asserted that the proposals still do not appear to satisfy the Commission's

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[19] OPASTCO at 4. OPASTCO further comments that "NECA's Small Company Incentive Option . . . would provide significant cost efficiency incentives to Subset III study areas with less than 50,000 access lines." Id.

[20] USTA at 3.

[21] NTCA at 4. NTCA (at 2) and OPASTCO (at 5) note that the proposed incentive plans may not be appropriate for all small and rural ECs. Both agree that the Commission should adopt NECA's proposed plan as optional and continue to afford pooling companies the opportunity to choose cost pooling or average schedules. Id. See discussion infra in Section II. C.

[22] See GCI at 2 and MCI at 2-3.

[23] See AT&T at 5; GCI at 1-3; and MCI at 2-4.

[24] MCI at 4.

[25] AT&T at 4-5.

[26] Id. at 3-4.

goals for incentive regulation.[27] MCI questioned the accuracy of the proposed fixed settlement rate,[28] and GCI is concerned with ECs' ability to switch back and forth between the plan and a rate of return environment.[29]

In this Reply, NECA demonstrates that the comments made by AT&T, MCI and GCI are without merit. NECA's plan closely resembles policies and plans approved by the Commission which have produced solid benefits to access customers. NECA's plan is based on sound regulatory policy and will advance the Commission's goals by extending incentive regulation options to small and mid-sized telephone companies. NECA will show that its incentive regulation lowers access rates and that its settlement rates, timing commitments and optionality are reasonable. NECA urges the Commission to initiate a rulemaking proceeding and ultimately to adopt its proposed rule revisions.

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[27] Id. at 3.

[28] MCI at 2-3.

[29] GCI at 2.

## II. DISCUSSION

### A. NECA's Plan is Consistent with Commission Policy

MCI questions the policy basis for NECA's proposals.[30] Adoption of NECA's proposed plan would, in fact, add a positive step to the Commission's policy of developing a continuum of incentive-based regulatory options for ECs.[31]

In 1987, the Commission began to examine alternatives to rate of return regulation and then adopted an optional means of filing traffic sensitive (TS) rates.[32] The Commission adopted a price cap plan for AT&T two years later.[33] This plan set price ceilings for each of three baskets and for selected services within each basket and described formulas for updating them. The Commission then

[30] MCI at 4.

[31] The Commission, while continuing its examination of improved regulatory regimes for small and mid-sized ECs in 1992, concluded that "the preferred approach for regulatory reform for this segment of the LEC industry is a continuum of increasingly incentive-based approaches that permit companies to choose a plan which best fits their circumstances." Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation, CC Docket No. 92-135, Notice of Proposed Rulemaking, 7 FCC Rcd 5023, 5024 (1992).

[32] In 1987, the Commission began to examine the "price cap" model. See Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Notice of Proposed Rulemaking, 2 FCC Rcd 5208 (1987) (First Price Cap NPRM). The Commission adopted the Section 61.39 plan as a optional means of filing traffic sensitive rates. The plan was adopted in Regulation of Small Telephone Companies, CC Docket No. 86-467, Report and Order, 2 FCC Rcd 3811 (1987), and amended in Regulation of Small Telephone Companies, Order, 3 FCC Rcd 5770 (1988). See also Section 61.39 of the Commission's rules, 47 C.F.R. § 61.39.

[33] Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Report and Order and Second Further Notice of Proposed Rulemaking, 4 FCC Rcd 2873 (1989) (AT&T Price Cap Order).

adopted its EC price cap plan and required the eight largest ECs to convert to price cap regulation in 1990. [34] The EC price cap plan was specifically made voluntary for all other ECs.[35]

In the Second Price Cap Order, the Commission stated that it would continue to explore revisions to incentive plans to develop options that would meet the needs of small and mid-sized ECs remaining under rate of return regulation.[36] The Commission in 1992 initiated a Notice of Proposed Rulemaking to implement optional regulatory plans for small and mid-sized ECs that remain subject to rate of return regulation.[37] The Commission, in its 1993 Regulatory Reform Order, adopted the USTA-proposed Optional Incentive Regulation (OIR) Plan, with some modifications.[38] At the same time, the Commission also amended section 61 39 of the Commission's rules, 47 C.F.R. § 61.39, to

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[34] Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Second Report and Order, 5 FCC Rcd 6786 (1990) (Second Price Cap Order) and Erratum, 5 FCC Rcd 7664 (1990), modified on recon., 6 FCC Rcd 2637 (1991) (EC Price Cap Reconsideration Order), petitions for further recon. dismissed, 6 FCC Rcd 7482 (1991), further modified on recon., 6 FCC Rcd 4524 (1991) (ONA/Part 69 Order), petitions for recon. of ONA/Part 69 Order pending, District of Columbia Public Service Commission v. FCC, No. 91-1279 (D.C. Cir. 1991), appeals of LEC Cap Order affirmed sub nom., National Rural Telecom Association v. FCC, 988 F.2d 174 (D.C. Cir. 1993).

[35] Second Price Cap Order at 6818-6819. The Commission stated that it believed "that the diversity of LECs and the incompletely developed record on productivity caution against a broader mandatory application of the price cap system." Id. at 6819.

[36] Id. at 6799-6801.

[37] Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation, CC Docket No. 92-135, Notice of Proposed Rulemaking, 7 FCC Rcd 5023 (1992); Erratum, 7 FCC Rcd 5501 (1992) (Regulatory Reform NPRM).

[38] See generally Regulatory Reform Order. This OIR plan integrates rate of return and price cap incentive regulation.

extend the section 61.39 filing option to common line rates.[39] The Commission also encouraged NECA to continue work on proposals to introduce optional incentive plans into the pooling process.[40]

NECA requests that the Commission extend its range of incentive options by adapting existing plans for ECs that require NECA's administrative assistance and wish to maintain their participation in NECA pools. By combining pooling and optional incentive regulation, more ECs can participate in incentive regulation options while retaining the administrative efficiencies of centralized tariff administration.[41]

Both the Customer Dividend Option and Small Company Incentive Option offer continued pooling benefits. NECA's Customer Dividend Option is designed for ECs not eligible for participation in the Small Company plan. The Small Company Incentive Option would allow pool companies to mirror section 61.39, while continuing to benefit from the administrative cost savings that result from being a pool member. These savings are passed on to access customers in the form of lower rates.[42]

ICORE acknowledges that price caps and the section 61.39 plan, which require companies to exit the NECA pool and not participate in NECA's interstate tariff, are too much for many small

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[39] Id. at 4559. See Petition at 5. This two-year option is available for both cost and average schedule study areas outside the NECA pools.

[40] See id. at 4562 and n. 5, supra.

[41] Administrative efficiencies include avoiding the need for over 1,000 individual access tariff filings which reduces burdens on ECs, IXCs and Commission staff.

[42] Supplemental Comments at 9.

ECs.[43] NTCA recognizes that NECA's proposed incentive plans will give small companies benefits without requiring them to file individual tariffs.[44] ICORE states that price caps and streamlined tariff rules can be extended to small average schedule companies and cost companies with less risk and financial hardship.[45] OPASTCO asserts that continued membership in NECA pools lessens some of the risks inherent in these plans by allowing pool members to continue the centralized tariff administration and ratemaking which are essential to small ECs' operations.[46]

B. Optional Incentive Plans Benefit Ratepayers

AT&T asserts that NECA has failed to show how its optional incentive plans provide benefits to access ratepayers.[47] Since both NECA's Customer Dividend Option and its Small Company Option are similar to the section 61.39 plan, the experience for companies that have opted for that plan provide relevant data on customer benefits. To date, that experience demonstrates that 61.39 ECs have lowered their access rates, thereby benefitting their ratepayers. NECA has identified sixty-seven (67) companies that have chosen this form of regulation, approximately 6.4% of the ECs

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[43] ICORE at 2. MCI (at 4) states that rather than opt for a new plan, small carriers should seek pricing flexibility from current available plans. However, other plans require ECs to sacrifice NECA tariff advantages, e.g., the time and expense of preparing, filing, defending, and updating individual company tariffs. There are also administrative savings for both IXCs and the Commission from a reduced number of companies filing individual tariffs. See also supra n. 41.

[44] NTCA at 2.

[45] ICORE at 2.

[46] OPASTCO at 5-6.

[47] See AT&T at 3-4.

eligible.[48] Of these, fifty (50) refiled rates under the section 61.39 option for the 95-97 tariff period. Using their filed current and proposed rates, NECA calculated that these ECs, on average, have decreased access rates by 4.6%.[49]

C. NECA's Proposed Timing Commitments Are Reasonable and Optionality Is Necessary

GCI is concerned about the ability of ECs to switch back and forth between the plan and a rate of return environment and states that the Commission should determine if a longer or shorter period is needed.[50] There is no evidence that ECs who have opted for incentive regulation under the section 61.39 plan have taken undue advantage of some unintended benefit. NECA has identified 41 companies that were eligible to switch from 61.39 to 61.38 regulations and only four (4) (approximately 10%) chose to do so. NECA's Customer Dividend Option sets a minimum incentive commitment period of four years, i.e., two, two-year incentive periods, significantly reducing parties' ability to switch back and forth between settlement options. This is a reasonable time period and there is no justification for the Commission to alter it

AT&T also suggests that, if NECA wants incentive regulation for its pool members, all members should participate and use the customer dividend factor in calculating the settlement rates.[51]

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[48] See Attachment A. The number of companies that have elected the section 61.39 plan has steadily increased since the plan was adopted. In 1989 there were twenty-seven (27) participants and in 1995 there are sixty-seven (67) participants. See Attachment B. As more companies opt for the section 61.39 plan, further access rate reductions may be anticipated.

[49] See Attachment A. One additional company which refiled its Section 61.50 tariff also showed a TS switched rate reduction of 5.3% and a total interstate reduction of 4.5%.

[50] GCI at 2.

[51] AT&T at 5.